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Outlook '89: OPEC Remains The Big Factor
Car Service Malls Are A Developing Trend
Double-Wall Tank May Be A Breakthrough

NPN
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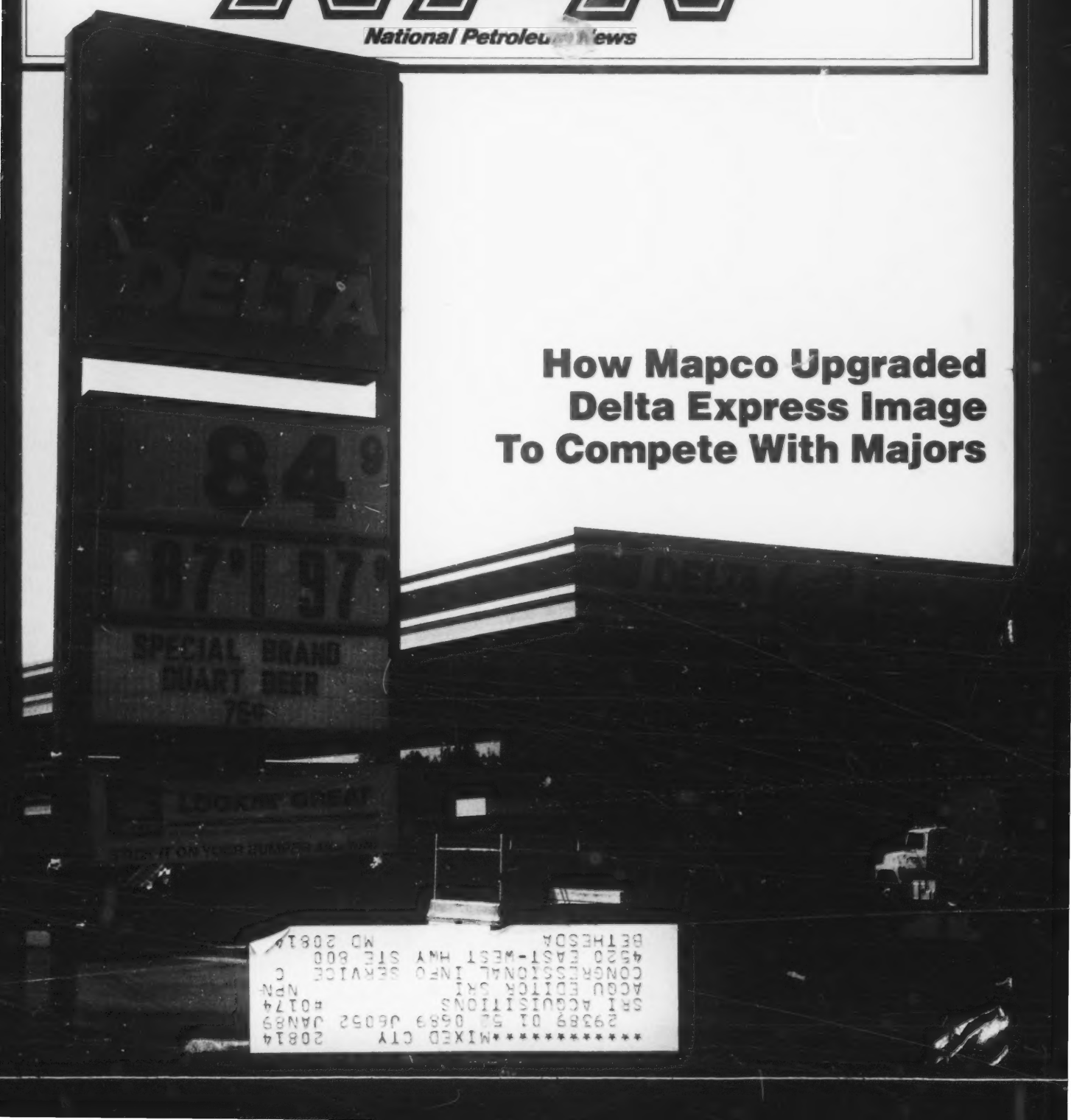

How Mapco Upgraded Delta Express Image To Compete With Majors

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Editor's Viewpoint

It is a habit of legislators without the desire, discipline or brains to constrain government spending, or the stomach and good conscience to level with their constituents, to raise taxes other than individual income taxes. These other tax hikes are easier to rationalize with verbal and financial acrobatics and taxpayers usually just resign themselves to it and eventually forget the whole thing. It works. How many people realize how much of the money they spend goes to taxes? Crafty politicians count on that.

The "sin" taxes on cigarettes and alcohol are regular targets for such increases. Gasoline taxes are an equally common scapegoat. And, as our outgoing president might say: "There they go again." Renewed talk about raising the federal gasoline tax 25¢ or 50¢ is gaining momentum.

What's most aggravating and infuriating about a gasoline tax hike is the deceit and hypocrisy of the legislators supporting it. What Congressman would vote outright for a measure that stymies economic growth, increases unemployment and boosts inflation? What Congressman—particularly those who constantly wring their hands about the poor—would vote outright for a regressive tax which is plainly a greater financial burden to the poor?

Yet, that is what higher gasoline taxes would mean. Studies by both government and private organizations have pointed out the detrimental impact of a gasoline tax increase. A recent analysis by Whatron Econometrics, for instance, indicates that just a 10¢ a gal. increase would cut GNP by $10-billion this year, raise unemployemnt by 80,000 this year and 180,000 next year, drop personal savings by 3%, boost the consumer price index 0.3%, reduce auto production 1.3%, housing construction 0.9% and petroleum refinery production by 1.2%. And—most ridiculous and counterproductive of all—it would reduce overall tax revenues by about $1-billion annually.

And what's the justification for a gasoline tax that would cause this? Supporters say it will reduce the federal budget deficit. Read my lips. My short response to that can't be printed, but the first word is "Shove" and the last word refers to a part of the human anatomy located at the rear of the body just above the thighs. Give government more money and it will do what it has always done—spend it, usually in the most wasteful manner.

Anyone who believes a gasoline tax increase will be used to cut the federal deficit should contact me immediately because the Brooklyn Bridge is again up for sale and I'm the chief sales agent.

—Frank M. Victoria

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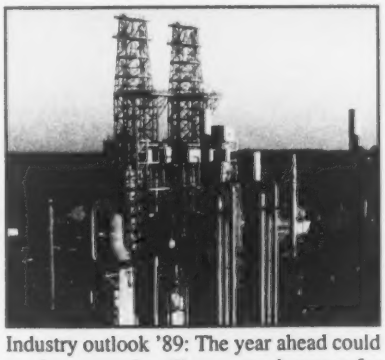
Mapco Petroleum, the heavy-hitting southwestern independent, is pushing a $150-million upgrade of its convenience stores to capture a bigger share of its 10 state market and improve refinery throughput and profitability. **Page 34**

Automotive service centers, bringing several car specialist facilities together into one shopping mall-type matrix, are described as the "hottest new development concept" since neighborhood shopping centers. Petroleum marketers could play a role in this new marketing trend. **Page 40**



Industry outlook '89: The year ahead could produce smooth sailing or rough waters for petroleum marketers. Much depends on whether OPEC holds to its November agreement to curtail production and shore up prices. **Page 46**

AHEAD OF THE NEWS

Big Marketing Expenditures Planned—Capital spending on oil marketing facilities isn't flagging at all, as was feared last summer. Back-to-back $5.1-billion spending programs are scheduled for both 1989 and 1990, according to McGraw-Hill Corp.'s Data Research Inc. subsidiary.

This is the first time that marketing has penetrated the $5-billion-plus stratosphere and reflects the increasingly tough competition for gasoline volume as well as the spiraling costs for underground storage tank replacement/rehabilitation programs and other environmental factors.

Marketing investments were $100-million more in 1988 than had been forecasted last summer and the 1989-90 projections of $5.1-billion seem almost unbelievable. Capital spending programs for the industry as a whole also broke into new ground for 1990—more than $50-billion, an increase of 12.8% over 1989.

$5-Billion Years For Marketing

	(million dollars)	% Chng. vs prev. year)
MARKETING		
1990 (Planned)	$5,146	0.2%
1989 (Planned)	5,137	4.9
1988 (Estimated)	4,896	12.5
1987 (Actual)	4,352	23.4
TRANSPORTATION (*)		
1990 (Planned)	2,868	(0.4)
1989 (Planned)	2,878	17.6
1988 (Estimated)	2,447	35.6
1987 (Actual)	1,805	(52.7)
EXPLORATION AND PRODUCTION		
1990 (Planned)	32,474	21.1
1989 (Planned)	26,813	4.0
1988 (Estimated)	25,780	21.6
1987 (Actual)	21,199	7.2
REFINING		
1990 (Planned)	2,517	8.2
1989 (Planned)	2,326	6.1
1988 (Estimated)	2,193	15.0
1987 (Actual)	1,907	(23.0)
OTHER (**)		
1990 (Planned)	5,638	0.3
1989 (Planned)	5,622	11.9
1988 (Estimated)	5,025	17.7
1987 (Actual)	4,269	4.8
PETROCHEMICALS		
1990 (Planned)	1,753	(7.4)
1989 (Planned)	1,893	25.5
1988 (Estimated)	1,509	49.1
1987 (Actual)	1,012	17.6
U.S. TOTAL		
1990 (Planned)	50,396	12.8
1989 (Planned)	44,669	6.7
1988 (Estimated)	41,849	21.1
1987 (Actual)	34,544	0.5

(*) Excludes gas pipelines; (**) includes oil company coal mining.
Source: Data Research Inc./McGraw-Hill Corp. Thirty-Eighth survey of Preliminary Plans for New Plants and Equipment. 1988-1990 data collected in October and published Nov. 30, 1988.

Clark Oil-Horsham Deal Could Fizzle—Technically, Horsham Corp. of Toronto, Ont., is the new owner of Clark Oil & Refining Co. and its Midwestern service stations, but there's a legal cloud over the deal that might wash it out in early 1989. Getty Petroleum Co., a big eastern independent, filed an appeal against the bankruptcy court decision which rejected its bid of $553.5-million for Clark [*NPN*—Nov. '88, p28] and approved Horsham's instead. Clark assets include two 130,000 b/d Illinois refineries; 15 terminals and certain pipeline interests; and 1,000 service stations. Horsham's partnership includes Sam Goldstein and Tony Novelly, president and vice president, respectively, of bankrupt Apex Oil Co., St. Louis, Mo., which owns Clark outright. Getty's appeal maintains that its bid was $50-million better than that of Horsham. Getty officials say they expect a hearing to be held early this year and "if we win, then Apex, Clark and Horsham will have to unwind things, that's all."

Equipment Makers Foresee Bland Year—Neither optimistic nor pessimistic, the manufacturers who make water heaters and central heating equipment anticipate little change in direction this year. Here's how the members of Gas Appliance Manufacturers Assn. view the next 12 months: Water heaters: gas, up 1.3%; electric, up 1.5%; central heating: gas furnaces, down 3.5%; oil furnaces, down 3.5%; and electric furnaces, down 2.2%. GAMA does not make an estimate on oil-fired water heaters but these manufacturers also expect little change in 1989.

Amoco Jobbers To Use Thier Own C-Store Logos—Amoco jobbers can now display their own C-store logos at Amoco branded stations, the company announced recently, as long as a minimum of five stations have a registered trademark and the stations have $1.2-million in annual ancillary sales. Amoco jobbers were previously required to designate their C-stores as Amoco Food Shops in compliance with Amoco's image standards, but the company now says jobber C-store logos may have significant name recognition within the jobber's local marketing territory which could compliment the sale of Amoco gasoline and other sales.

Oil Imports To Swell—Growing domestic demand for oil and lower U.S. production will increase dependency on imports from 27% in 1985 and 37% in 1988 to 50% in 1994-'95, says John Lichtblau, president, Petroleum Industry Research Foundation. The dependency would have more effect economically than it would on the national security. Speaking at the recent American Petroleum Institute meeting, Lichtblau noted all 48 continental states have decreasing production, and Alaska's output will decline in 1990. Lichtblau forecasts a 1-1.5% a year growth in crude demand into the mid-1990s. The predicted 50% import plateau would be reached gradually and be something the country would "probably learn to live with," said Lichtblau. Arresting the import rate can be accomplished through "slow down precautions" he said, adding that imports will get more attention in 1989 than in the previous three years.

• TRENDS

C-Stores Going Global, Spreads To Far East

What was almost entirely an American phenomenon—the gasoline station and convenience store combination—is going international. C-store stations are now the dominant mode of motor-fuel retailing in the United States, but only scratched the surface abroad. There are some in Europe, notably England, but otherwise the concept is relatively untried in other parts of the world. The concept has been absent in the Far East—until now.

Kyodo Oil of Tokyo, one of the biggest oil companies in Japan, has signed a long-term licensing agreement to use Arco's am/pm mini markets at 500 outlets in Japan. It's the first time gasoline stations have been tied in with C-stores in that country, the first agreement between a Japanese oil company and a U.S. oil company/C-store chain, and the first time a Japanese oil company will be operating convenience stores.

Kyodo, a refiner/marketer with more than 6,400 outlets, is planning to convert selected stations to am/pm mini markets and also build new facilities. The first one is scheduled to open in Tokyo next spring. There is no petroleum connection in the agreement. The Japanese oil company will continue to run the gasoline business under its Kyodo brand.

Kazushige Nagashima, Kyodo executive vice president, says the company has been studying the C-store business throughout the world for three years and decided that Arco's am/pm is "by far the best system."

Kyodo's reason for entering the C-store business is similar to that of many oil companies in the United States. Skyrocketing real estate prices in Japan have made it necessary for them to obtain greater revenues from station properties. This is one of the major reasons Arco embarked on its am/pm venture in 1978.

Ancillary businesses for gasoline stations are not new, of course. Automotive service was the dominant one in the United States for over half a century, but C-stores emerged in significant numbers in the late 1960s and early 1970s to become the dominant mode of operation.

What Kyodo evidently understands is that C-stores have proved to be a valuable revenue producer in their own right while helping the gasoline operation to develop higher volume in a very competitive marketplace. In the hands of skillful gasoline marketers, certainly including Arco, the C-store/gasoline combination has been elevated to state-of-the-art retail marketing.

Along with C-store chains, oil jobbers and independent gasoline marketers pioneered the gasoline/C-store business for many years, but major oil companies have become believers and made the plunge. They have the capital, and probably more importantly, the key locations.

Oil companies can expand significantly in the market with their own existing properties; but C-store chains can expand only through acquiring new locations, at a very high and rising cost. (For a report on how the oil companies are squeezing conventional C-store chains, see [*NPN*—Sept. 88, p40].

Edward G. Reilly, senior vice president of marketing for Arco Products Co., says, "This agreement represents recognition that the am/pm concept can be adapted to markets around the world and that Arco has the expertise to make it work outside the United States."

In keeping with am/pm's own evolution, which now emphasizes fast food more than grocery items, Kyodo's mini markets will feature a combination of Western-style fast foods including hamburgers, hot dogs, yogurt and soft drinks as well as Japanese-style "box lunches" with such foods as sushi and oden.

Kyodo's am/pm's will range from 800-sq.ft. for remodeled locations to 1,500-sq.ft. for newly constructed units. Arco's American am/pm's are from 1,500-2,500-sq.ft.

Arco will appoint a manager to work with Kyodo in Japan, while Kyodo will send a training crew to Los Angeles to participate in operating an am/pm mini market in Arco's employee orientation program.

Kyodo and Arco got together, in part, through Pacific Partners Inc., Los Angeles, an investment and consulting company that served both firms, who saw similar problems, pointing to similar solutions.

—Mark Emond

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

OCTOBER	Gasoline (all types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$0.975	$0.910	$0.956	$1.119
Regions:				
Northeast	1.002	.917	.959	1.146
North Central	.958	.905	.951	1.104
South	.972	.899	.948	1.107
West	.973	.921	.967	1.116

Source: U.S. Dept. of Labor, Bureau of Labor Statistics

STOCKS (add 000 bbl.)

	12/2/88	12/4/87
Gasoline (total)	219,535	225,310
Gasoline (unleaded)*	143,770	134,947
Jet Kerosine	38,458	43,370
Distillates	128,882	128,628
Residual	42,785	46,575

** Included in gasoline total*
Source: American Petroleum Institute

Industry Outlook '89: OPEC Actions Will Have Most Impact On Oil Marketing

With a new and untested administration taking over in Washington, and with enough domestic problems out there already to insure oil marketers of many sleepless nights to come, this should not be the year in which a fractious oil cartel can come along and mess up things like never before.

Yet, this is exactly what's happening and is an indication of what's in store for the domestic oil industry in the challenging new year. By December, this year may be looked back upon as the year of the bullet—bullet-biting, that is. Conceivably, such hard-nosed actions could produce a rash of shutdowns and business collapses in 1989.

It's fair to say that 1989 could be one of the wildest, most traumatic in history. On the other hand, it's also reasonable to forecast a blandish 12-month period for 1989—with the specter of a replay of 1986 haunting one and all in the background.

Which scenario comes to pass is in the laps of the gods right now. Just about everything hinges on the individual members of the Organization of Petroleum Exporting Countries in the first six months of the new year.

By J. Richard Shaner
Executive Editor

Prodded by Saudi Arabia, which threatened to flood the world with enough crude to drive prices down to $5 bbl., the OPEC cartel spent 12 contentious days wrestling with Iran-Iraq parity demands and a production ceiling that would enable global prices to float back up to $18 a bbl. by spring.

A fragile agreement was achieved. Iran finally conceded on the parity discord and the group set a production quota of 18.5-million b/d effective January 1. This was 4.5-million b/d below the fourth-quarter level of 23-million b/d which had threatened to overwhelm the world and destroy the current price structure in the process.

But no matter what was said or done in Vienna in November, the real key is the follow-up; in other words, are the OPEC member commitments for real or are they merely another round of lip service and double dealing? That has been OPEC's problem in recent years—sub-rosa discounts and production schedules that violated quotas and cartel agreements. This is just polite terminology for saying cheating and chiseling, but that's exactly what the OPEC members have been doing to each other in recent years.

Saudi track record

It must be remembered that OPEC—and Saudi Arabia, in particular—triggered the 1986 collapse with more crude oil than the world could ever hope to absorb in the face of declining demand and long-term projections for more of the same.

That kind of a price collapse could happen again in 1989. As a matter of fact, Saudi Arabia oil executives at Vienna said they would have no compunction about pumping as much as 10-million b/d of crude. Producing that much product would be more than twice its OPEC quota and almost double what it exported this past November—when there already was 5-million b/d of surplus floating around and looking for

1989 Forecast: Deja Vu And Then Some

By The Quarters

	1989 Projections				1988 History			
DEMAND (million b/d)	1Q	2Q	3Q	4Q*	1Q	2Q	3Q	4Q*
Motor Gasoline	7.09	7.64	7.62	7.42	6.98	7.49	7.54	7.35
Leaded	1.30	1.19	1.05	0.95	1.38	1.46	1.33	1.41
Unleaded	5.79	6.45	6.57	6.47	5.60	6.04	6.21	5.94
% Unleaded	82%	84%	86%	87%	80%	81%	82%	81%
Distillates	3.53	3.04	2.89	3.31	3.52	2.81	2.76	3.26
Residual	1.41	1.17	1.05	1.15	1.54	1.10	1.15	1.20
Total U.S. (a)	17.46	16.96	17.03	17.41	17.44	16.53	16.79	17.26
PRICES (per gal.) (b)								
Motor Gasoline (c)	.89	.93	.99	.96	.93	.96	.99	.95
No. 2 Diesel Oil	.89	.93	.92	.91	.93	.93	.90	.87
No. 2 Heating Oil								
Wholesale	.48	.47	.47	.48	.50	.49	.45	.43
Retail	.79	.78	.75	.80	.84	.82	.75	.75
Residual (d)	.36	.33	.34	.36	.35	.33	.32	.32

Annualized Comparisons

	Full Year			Percent Change		
DEMAND (million b/d)	1989	1988	1987	'89/'88	'88/'87	'87/'86
Motor Gasoline	7.44	7.34	7.21	1.4%	1.8%	2.6%
Leaded	1.12	1.39	1.74	(19)	(20)	(21)
Unleaded	6.32	5.95	5.47	6.2	8.8	12.0
% Unleaded	85%	81%	76%	—	—	—
Distillates	3.19	3.09	2.98	3.2	3.7	2.4
Residual	1.20	1.25	1.26	(0.4)	(0.8)	(11.3)
Total U.S. (a)	17.21	17.01	16.67	1.2	2.0	2.4
PRICES (per gal.) (b)						
Motor Gasoline (c)	.94	.96	.96	(2.1)	0.0	3.2
No. 2 Diesel Oil	.92	.91	.93	1.0	(2.2)	4.5
No. 2 Heating Oil						
Wholesale	.47	.47	.53	—	(11.3)	6.1
Retail	.78	.79	.80	(1.3)	(1.3)	(4.8)
Residual	.35	.33	.42	6.1	(21.4)	(23.6)

*Fourth quarters are estimates; (a) Includes all other oils; (b) Includes federal and state taxes on all products except heating oil, which is not taxed; (c) Average for all grades and services; (d) average for all grades of sulfur.

Source: Energy Information Administration, Short-Term Energy Outlook, dated October but published in November, 1988.

marketplaces.

Repercussions would be felt not only in the United States but in virtually every country on the face of the earth.

Outside the Middle East, there are probably no other producing countries in the world that could match the $5 a bbl. figure if it went that low.

A price of $5 a bbl. would raise havoc in the United States, where last year's short-term $8 a bbl. for Texas intermediate panicked most of the industry. In the Southwest, banks, savings and loan associations, real estate operators and local governments would take another merciless beating as they did in 1986. Exploration and drilling would come to an absolute standstill.

Cheap crude oil prices would probably inspire greater product demand, especially gasoline.

But the cheap retails would also depress—and all but eliminate, in some cases—margin levels that would warrant staying in business. The fallout here could be a rash of failures and shutdowns.

Forecasting problems

Because the whole thing is so tenuous, it's almost impossible to make projections of more than a few weeks at a time. Most economists are skating fast and furiously in their 1989 predictions, hedging them with so many ifs, ands and buts that they are self-defeating. At the November American Petroleum Institute meeting in New York, four economists took stabs at guessing what

the future has in store for oil marketers. While interesting, their predictions were not sufficiently conclusive to base plans on, sort of another Mexican standoff in the long run.

Of interest was one comment that as much as 200-million bbl. of oil may be floating around now, hoping for a demand rise in 1989. Another economist noted that the demand increase in 1989 will only be about 1-1.25%. One economist said he thought the chances for $10-$15 a bbl. for crude oil in 1989 were about 60%. On the high side, the chances of $15-$18 a bbl. crude were 25% and on the low side, about 15% for $7-$10 a bbl.

It was repeated several times at this session that the global surpluses already in existence simply aren't going to fade away. One economist noted that OPEC has already borrowed deep into the 1989 production budget by overproducing in the last half of 1988. That, he said, makes OPEC's production quota balancing act all the more difficult and seems to insure a continuation of the current disagreements for several years.

U.S. projections

The federal government's Dept. of Energy, in its fall-winter short-term forecast, qualified itself by using three scenarios—one for $13 a bbl. crude, another for $18 a bbl. crude and a third, the intermediate or base projection, $15 a bbl. crude.

Using the intermediate projection, the government said demand in 1989 might rise 1.2% with gasoline up 1.4% and distillates 3.2%. That was about the same as it said last summer in its mid-term forecast [*NPN*—Oct. '88, p29].

In reconsidering their summertime projections, the federal experts cut back somewhat sharply on price expectations (see forecast boxscore). For example, motor gasoline was lowered 2¢-3¢ a gal.; diesel fuel, 1¢-3¢; wholesale No. 2, 4¢-5¢ a gal.; and retail, 2¢-3¢ a gal., in comparison with the July projections.

The best gasoline price that the government experts foresaw for 1989 is expected to come in the summer months. The average price for all grades and services is expected to be 99¢ a gal., which is what it was at the same time last year. With premium unleaded around $1.05 a gal. in July and August, this would mean that unleaded midgrade would be around 94¢while unleaded regular would have trouble making 90¢.

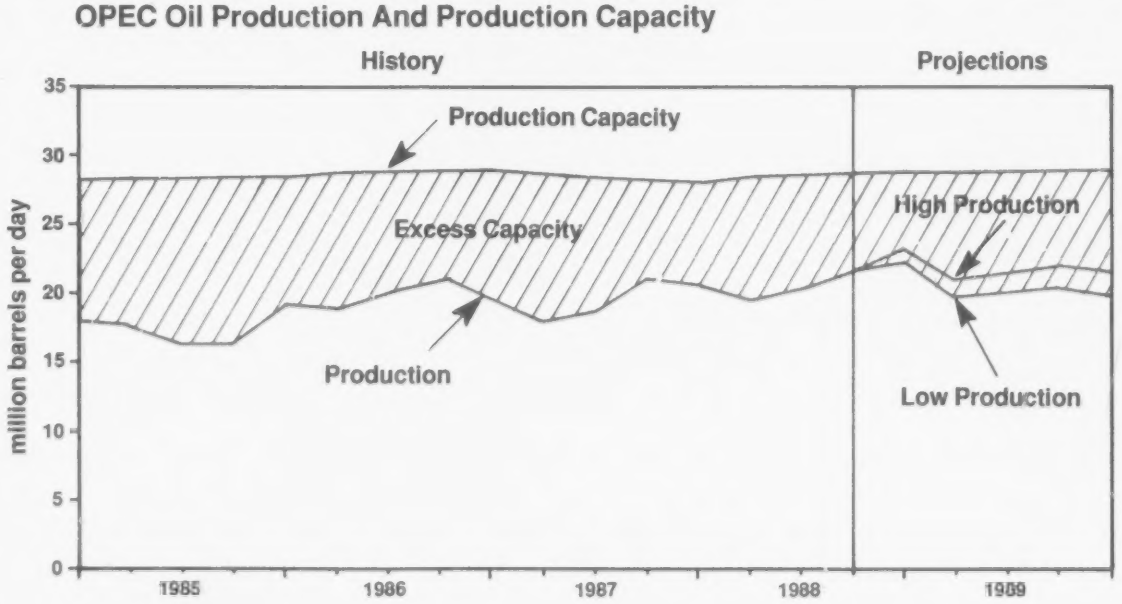
Domestic problems

Technically, President-elect George Bush is an oil man, having been in the production business some years ago. But the industry is not at all convinced that he's going to be open-handed and open-hearted with oil and its issues.

He's committed to follow in the footsteps of President Ronald Reagan and this would mean no change in the administration's attitude on Occupational Safety and Health changes, Environmental Protection Agency regulations, particularly the underground storage tank requirements.

Industry people are concerned about the probability that motor fuel taxes will be increased in 1989-'90 as a means of lopping some of the billions of dollars in federal deficits. Bush, of course, is pledged unequivocally to "no increase in taxes" during his stewardship. But the general expectation is that he will use equivocating language, such as Reagan's "revenue enhancer" to make his end run while technically keeping his promise.

At both the API and Society of Independent Gasoline Marketers of America meeting in New York in November, the subject of gasoline tax increases popped up frequently. Some people talked about the possibility of 25¢ a gal. more, others 50¢. It was noted too that gasoline taxes overseas are measured in dollars per gal., not cents; thus, the 25¢ and 50¢ figures raised no fuss, fury or prolonged discussion. There was just an



Note: OPEC production includes crude oil, natural gas liquids and refinery gain.
Sources: *History:* Energy Information Administration, Office of Energy Markets and End Use, International and Contingency Information Division. *Projections:* Table 2.

uncomfortable feeling that it's going to happen and that maybe damage control rather than stiff resistance might be the right approach to consider.

Among the industry spokesmen who assailed the idea of a motor fuel tax increase were Richard Morrow, chairman of Amoco Corp. and chairman of API; and Charles J. DiBona, president of API. Both described it as the worst possible way to go.

Said DiBona, both in open meetings and in an API "White Paper" that was distributed at the end of the meeting: "Several studies have shown that such a tax increase would have a direct, negative impact on the growth of the economy and inflation." He added that such a measure "would only reduce the deficit about a third of the amount of money that is collected. It is the single most regressive form of taxation because it hurts the lower income people and would have severe regional effects."

Import taxes

There was some talk here and there of a possible import tax but this subject did not seem to cause concern.

One surprising thing that Morrow did say about imports, however, was an offhand comment to the effect that U.S. dependency on them might reach as much as "two-thirds of our consumption by the year 2000." Most industry figures have talked about "maybe" 50% by the mid to late '90s but this is the first-time usage of a 65% concept by a high-ranking industry executive.

DiBona's "White Paper" also delved deeply into the imports dilemma. He said:

"The point is not whether Middle Eastern OPEC nations will cut off supply but simply that they can. If rising demand or a supply interruption eliminates the glut, any number of unpredictable developments around the Persian Gulf could directly, swiftly and critically affect the United States."

DiBona proposed a 10-point program for Congress and the Bush administration, including:

- Eliminate price controls on natural gas.
- Continue to fill the Strategic Petroleum Reserve.
- Encourage conservation while simultaneously encouraging expanded use of all domestic energy resources, such as coal, nuclear power, etc. He urged use of alcohols but advised against mandating specific fuels or blends.
- Open more federal lands for petroleum exploration while achieving a proper balance between environmental protection and petroleum usage.

Reagan Farewell: Oil Better Off Now Than Eight Years Ago

In a salute to its role in history, the Reagan administration says the federal government now has a new energy security foundation "from which we can move forward into the 1990s and the 21st century."

Never again, said John Herrington, the retiring secretary of energy, in a lengthy review of the administration's eight-year span in office, "will the United States return to where it was 15 years ago at the outset of the first energy crisis."

In addition, he said, America is a fundamentally different nation today in terms of energy security than it was a mere eight years ago.

Recapping, he said:

"Federal price and allocations on oil, the Windfall Profit Tax, and other disincentives to exploration and production of domestic oil have been eliminated while key tax incentives have been preserved. Since 1980, our overall energy efficiency has improved so much that we are producing 21% more goods and services with less than a 1% increase in energy use."

He said Americans are enjoying the benefits of low-cost energy, with the real price of gasoline down almost 50% since 1981. He added:

"We use little more energy in the United States than we did in 1973, though the population has grown by 24-million, there are 20-million more houses to heat and cool, 50-million more vehicles are on the road, and the gross national product is 40% larger than it was in 1980."

He also said that "while we have reason for legitimate concern over the viability of our domestic oil industry, the nation's energy supplies are more diversified than ever and our reliance on insecure sources of imported oil has been sharply reduced. Thanks to our strengthened international alliances and refortified strategic reserves, the United States is better prepared than ever for an oil supply interruption."

Herrington said the following are among the conclusions that can be drawn about the government's energy policy:

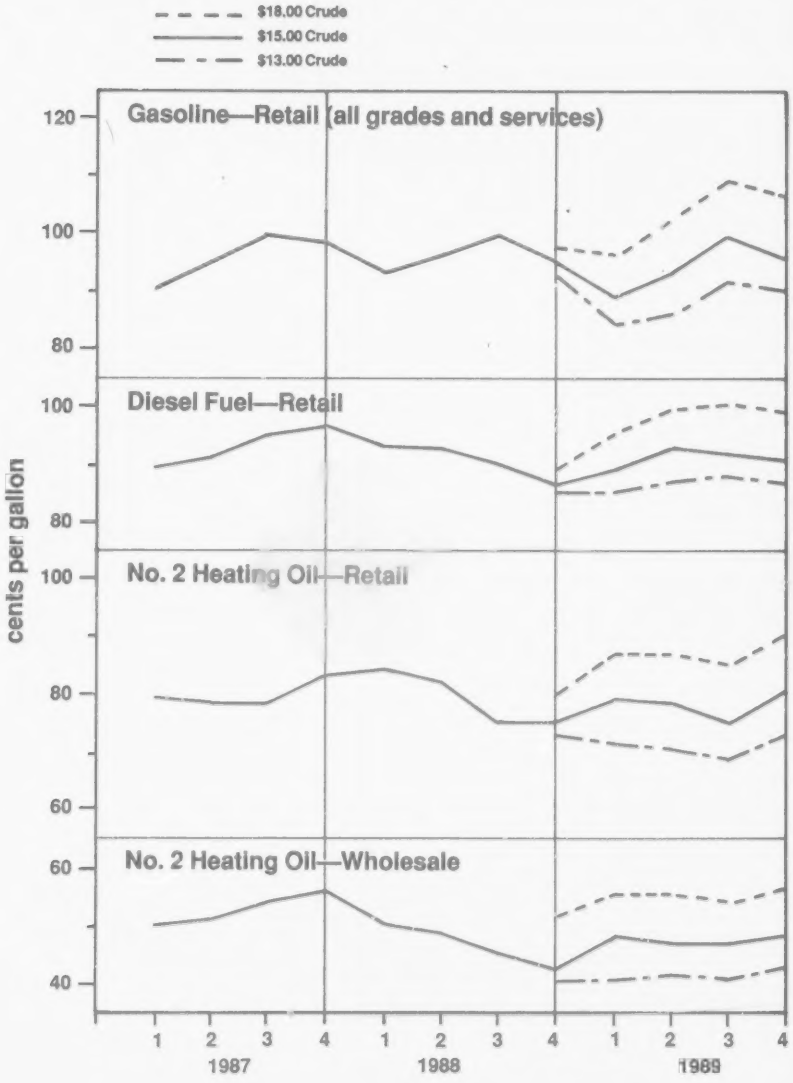
(1.) It is unlikely that the United States will ever return to where it was 15 years ago at the outset of the first energy crisis. Although the nation's "conservation ethic" is being severely tested in the face of lower energy costs, Americans have proven through most of the 1980s that lower prices do not necessarily mean a return to the energy consumption habits of the 1970s.

(2.) The dynamics of the world energy market have changed significantly. World oil demand has remained relatively level over the past 15 years. Non-OPEC production is up markedly—with an aggregate increase of 12-million b/d since 1973; and, as a consequence, OPEC's market share has been cut nearly in half. While OPEC will continue to have tremendous influence on prices, its member nations are heavily dependent on cash from oil and it will continue to have difficulty holding to agreed quotas. A large oil surplus exists worldwide and is likely to continue over the short- and medium-term, particularly with the prospects for the settlement of the Iran-Iraq War, which holds the potential of bringing another 2-3-million b/d onto the market.

(3.) On the positive side, while the industry has just gone through an extremely difficult period, it is more free of the counterproductive regulatory restraints. However, the price collapse of 1986 has tested the industry's infrastructure and the United States faces another sizeable production loss with the impending decline of production in Alaska's Prudhoe Bay oil fields. The Prudhoe Bay experience has shown that the environment and oil production can coexist successfully. To this end, exploration of our most promising prospects—such as the Coastal Plain of the Arctic National Wildlife Refuge—is imperative.

New techniques for recovering petroleum resources must be exploited. Sensible policies and incentives to encourage continued production of domestic oil in the lower 48 states continue to be critical. Regulatory changes are necessary if natural gas is going to achieve its still-enormous potential for displacing significant amounts of foreign oil. Equally important is the need to safeguard against possible supply interruptions by continuing our aggressive filling of the Strategic Petroleum Reserve, promoting Middle East stability, and encouraging alternative supply routes that will reduce the strategic importance of the Strait of Hormuz (in the Persian Gulf area).

Bird's Eye View—Price Projections For Key Products



1989 projections are based on three scenerios—crude oil at $13.00 bbl., $15.00 bbl. and $18.00 bbl. The $15.00 bbl. projection is considered to be the most likely.

Source: Energy Information Administration, Short-Term Energy Outlook, October 1988.

• Avoid additional energy taxes while attacking the budget deficit by holding down spending programs and growth.

His is an ambitious program but similar proposals in the past have been ignored by Congress and the Reagan administration.

Several years ago, most of the petroleum industry was pretty well convinced that a major energy crisis was imminent. Except for the trauma of 1986, it appears to have escaped such a calamity so far. Depending on what OPEC does this winter, this could be the decisive year, however—the day of reckoning at long last.

It will be a highly competitive year no matter which way it goes.

Competition Up API Study Shows

An updated study by the American Petroleum Institute says concentration levels rose modestly in some segments of the industry in 1987 but that overall they were "still low relative to the historical peak in 1970."

The study says concentration levels in gasoline sales declined to near-record levels in 1987.

This is the ratio reported in the current study, which was issued at the API meeting in New York in November:

Motor Gasoline Sales
(percent of national market)

	1970	1980	1986	1987
4 Firms	30.7	28.5	29.5	28.9
8 Firms	54.6	49.5	49.6	48.7
15 Firms	74.9	66.3	66.4	65.0
20 Firms	80.0	72.1	70.5	70.2
30 Firms	NA	77.9	76.6	76.4

The API study quotes Lundberg Survey data to confirm that Shell Oil was the nation's biggest gasoline marketer in 1987 with 8.10% of the U.S. total. (It should be noted that the Lundberg figures differ from those compiled by NPN because the collection procedures are not the same. Lundberg uses data obtained from state tax collection offices and direct inquiry while NPN uses refinery sales figures published by the oil companies in their annual reports.)

Here are the top gasoline market share figures reported in the API study:

U.S. Motor Gasoline Sales
(000,000 gal.)

Company	Sales	Market share
Shell	9,074.7	8.10
Amoco	8,179.9	7.31
Exxon	7,608.7	6.80
Mobil	7,527.9	6.72
Chevron	7,232.2	6.46
Texaco	7,084.6	6.33
Unocal	4,118.9	3.68
BP America	3,717.2	3.32
Phillips	3,420.4	3.05
Arco	3,201.5	2.86
Sun	2,917.7	2.61
Marathon	2,720.2	2.43
Conoco	2,373.5	2.12
Ashland	1,898.5	1.70

Following are some other highlights of the API study, copies of which may be obtained from API headquarters:

Proven Oil Reserves: Top company: BP America, 8.34%; top four firms: 31.6%.

Oil Production: BP America, 8.51%; top four firms: 28.3%.

Refining Capacity: Chevron: 11.35%; top four firms: 32.2%

Refinery Runs: Chevron, 10.71%; top four firms: 32.6%.